BY HARLOW D. OSBORNE AND JOHN A. GORMAN

Business Fluctuations: Influence of Personal Credit Buying and Saving

CYCLICAL fluctuations in the national output generally center in substantial measure in investment outlays and consumer purchases of durable goods. Demands in these key markets are in part postponable, and depend largely on anticipations as to needs, prices, and incomes and on available financing. The last involves the purchasers' access to capital funds—their own and others' savings, or deposit credit from the banking system.

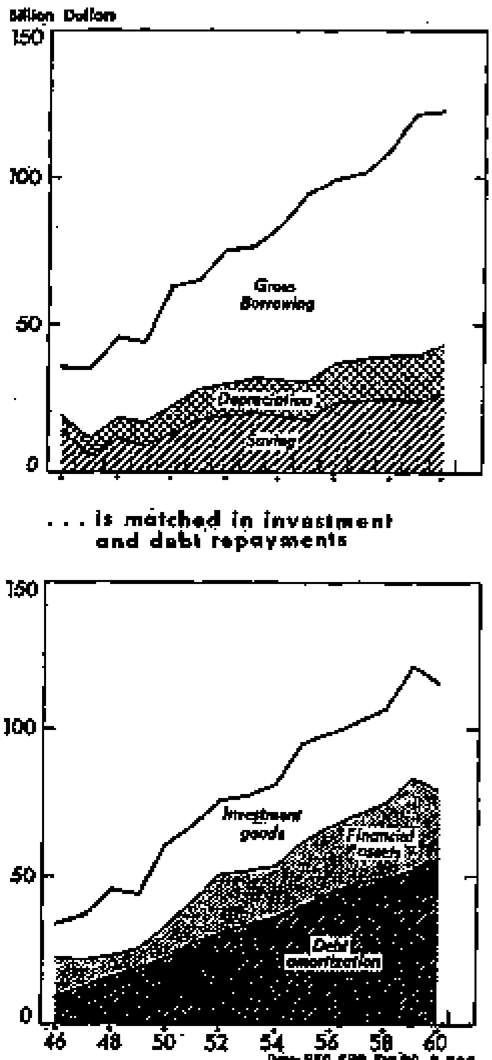
Financial conditions are especially important in connection with personal buying of investment goods, a segment which accounts for close to 50 percent of gross private domestic investment, and to a lesser extent in the purchasing of durable consumer goods. Because of the limited resources of the individual, buying is conditioned to a very substantial degree on the availability of credit, and is of particular interest from the standpoint of an anticyclical monetary and credit policy.

Persons' investment buying and borrowing are shown for the postwar period in the accompanying chart, which presents them in the framework of a summary sources-and-uses of funds statement. This chart brings out in striking fashion three major financial developments which have featured the past decade and a half—the rise in the role of credit as a fund source, the concomitant increase in the volume of debt amortization commitments which must be met in any given period, and the remarkable stability of personal saving over the mild business cycles that have been experienced.

This review deals with certain aspects—mainly cyclical—of these developments. Individuals' use of credit is analyzed first, in relation to shifts in the current fund sources of lending institutions; second, financial saving by persons is outlined in terms of its cyclical behavior and composition; and finally, the postwar relationship of total personal saving to general financial conditions on the one hand and to personal income on the other is considered.

SOURCES AND USES OF PERSONAL FUNDS

Expansion in saving and borrowing



Data: SEC, FRB, FHLBB, & OBE

U. S. Department of Commerce, Office of Business Economics 61-4-6

Investment and Use of Credit

A NEW high for business in 1960 was marred by a weakening in the latter part of the year before a full cyclical expansion had been accomplished. Personal investment totaled $36 billion, but was not an especially strong factor during the year. New housing starts declined rather steadily—sharply at year-end. Buying of plant, equipment, and inventory for noncorporate businesses was irregular; it contributed to business expansion in part of the year but demand turned downward in the late months.

A considerable part of the funds invested by persons came out of savings, but as usual the larger part was borrowed, under financial conditions which were somewhat restrictive.

The trends of investment and the related borrowing over the postwar period are shown in table 1, which also illustrates the varying cyclical relationships in this period. Personal investment outlays are seen to have risen in times of general cyclical contraction: From 1953 to 1954, and again from 1957 to 1958. These were periods when other components of gross private domestic investment declined, carrying downward the national totals of such investment. Credit conditions were easing in each case, however, and personal business and residential borrowing expanded more than enough to finance gains in noncorporate capital purchases and housing construction.

The reverse pattern is seen in the years when the economy neared cyclical peaks, as in 1952–53, 1956–57, and 1959–60: Borrowing declined and personal investment ceased to expand.

In this area of complex interactions and limited statistical information it is hard to draw firm conclusions about casual relationships. From the facts reviewed below it appears, however, that the variation of credit availability has been a major anticyclical weapon in situations where basic demand has been strong and the supply of loan funds the limiting factor.

The countercyclical swings in the supply of credit have a threefold origin: Public monetary and credit policy; shifts in the demands of individuals and others for the lender institutions' deposit liabilities; and the changing attitudes of corporate and other borrowers toward debt financing.

The effects of anticyclical increase in the capacity of the banks to expand deposit credit, it may be noted, are felt only in part in the improved availability of funds for personal investment. A considerable share of the expansion tends to be offset by the shift in the Government's fund market position from that of a net supplier at the cyclical peak to that of borrower in the trough.

The Housing Market

The purchase of a house is a major investment. With the price often running two to four times the buyer's annual income, such outlays are financed by the use of previously accumulated savings and by borrowing. The homebuyer's previous saving plays a major part in financing some house sales, and some role in virtually all such transactions. Mortgage credit, however, is the principal element.

Loan financing has been particularly crucial in the lower middle price brackets where the mass market for new housing has been found. Many new tract houses have been financed by mortgages ranging from 85 percent upward to not far from 100 percent of initial nonsettlement cost. Mortgages on more expensive new residences have tended to average two-thirds to three-fourths of purchase price.

Growth in credit

One of the basic elements in the evolution of the current state of residential credit is the continuing appreciation in residential property values which began with the war, in large part in reflection of the general inflation in the economy. To date this rise has been more than sufficient to cover depreciation charges on an average house built at almost any time during the past generation and beyond. Under these conditions, the purchase of a residence on credit has in general proved to be a successful move financially, and the residential mortgage has proved adequate as security for the loan involved. The impact of rising market values on the volume of credit employed, moreover, has been augmented by the progressively higher debt-value ratios which they have rendered acceptable to lenders on any given type of loan—conventional, FHA, or VA.

Besides making new houses more attractive from an investment standpoint and credit on them easier to obtain, these developments had the effect of providing many owners of older houses with the downpayments required for new ones. In recent years nearly half the families that purchased new dwellings have moved out of older properties of their own.

Also contributing to the expanded use of mortgage credit, and hence to the market for housing, have been two sets of major technical developments. The liquidity of mortgage portfolios has been improved by the increasing prevalence of amortized mortgages and of Government inspection guarantees, the development of a national market for Government-underwritten loans, and the making of a secondary market for such paper by the Federal National Mortgage Association.

At the same time, the needs of institutional mortgage lenders for liquidity have been eased by Federal guarantee of bank deposits and of savings and loan shares, which reduced the vulnerability of these institutions to withdrawal runs, and the use of Federal Home Loan Bank advances to carry savings and loan associations over temporary fund stringencies.

The progressive liberalization of mortgage credit since the late 1940's is reflected in the rising length of loan terms to maturity and the declining downpayment requirements shown in the lower panel of the chart on page 16.

Anticyclical role

During the recession phase of business activity, the overall demand for loan funds for all purposes declines. At the same time the supply available to financial intermediaries shifts upward, owing to the anticyclical easing

Table 1.—Personal Investment and Related Financing, 1946–60

(Billions of dollars)

Line		1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
1	Investment	11.6	15.4	22.4	18.4	27.7	26.3	25.2	25.5	27.6	33.0	30.9	31.1	32.1	38.2	36.0
2	New nonfarm housing	4.4	6.8	9.0	8.2	12.7	11.6	12.0	12.8	14.2	17.3	16.3	15.6	16.4	20.3	18.4
3	Noncorporate inventories and fixed investment	7.1	8.2	13.4	10.1	15.0	14.7	13.3	12.8	13.4	15.7	14.6	15.5	15.6	17.8	17.6
4	Borrowing	9.2	11.0	10.5	8.7	18.7	13.6	14.5	12.5	19.8	23.2	22.4	20.3	28.7	31.9	28.2
5	Residential mortgage debt, gross of amortization	5.4	6.7	7.3	7.2	10.7	10.8	11.2	12.4	14.5	17.7	16.9	15.4	17.9	22.0	20.2
6	Business and farm debt	3.8	4.3	3.2	1.5	8.0	2.8	3.3	.1	5.3	5.5	5.5	4.9	10.8	9.9	8.0
7	Inflow of funds to mortgage lenders[1]	−2.2	14.0	8.4	12.9	22.3	22.0	24.2	30.7	27.3	28.4	26.7	25.6	40.4	36.3	40.4
8	Demand and time deposits at commercial banks	−11.2	6.1	−1.3	2.3	10.1	9.6	8.1	3.8	8.1	7.5	5.3	3.8	14.9	3.4	10.1

1. Mortgage amortization and other fund sources of commercial and mutual savings banks, savings and loan associations, and life insurance companies.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, Federal Deposit Insurance Corporation, Institute of Life Insurance, and U.S. Department of Commerce, Office of Business Economics.

in the Government's monetary and credit policy and the expanded inflow of personal saving. In the postwar period such changes have had an impact on mortgage lenders' policies in terms of reductions in downpayments required, extensions of scheduled maturities, lower interest rates, and wider acceptability of marginal types of mortgage investments.

Changes in prevailing downpayment requirements from year to year have amounted recently to as much as $500 on average-priced houses; and the widespread practice of including part of any mortgage discount in the settlement charges has led to fluctuations of up to $200 in these charges as the discount has varied over time. The lengthening of amortization periods and the availability of lower interest rates have together affected schedules of debt service charges by as much as $5 to $10 a month.

All these qualitative and quantitative changes have had their effect on prospective home buyers in the market.

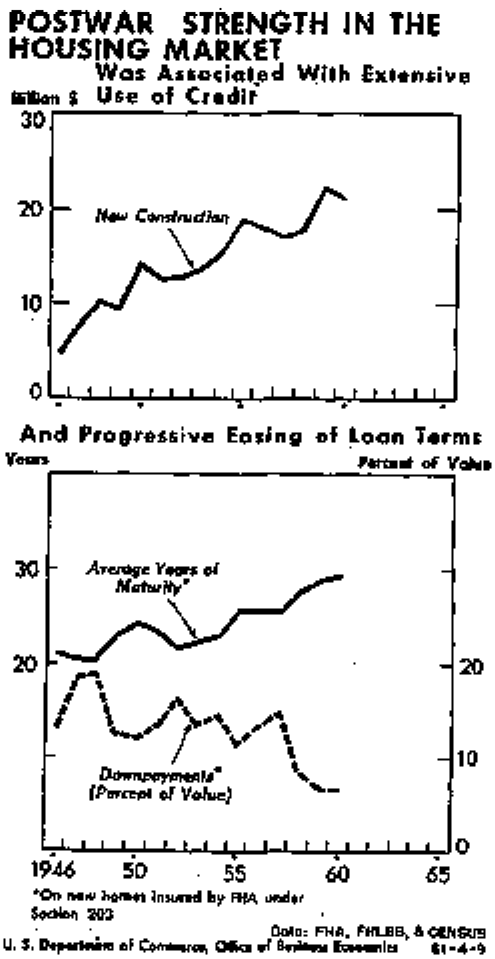


Table 2.—Personal Consumption Expenditures and Related Financial Flows, 1946–60
(Billions of dollars)

Line		1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
1.	Personal consumption expenditures: Total	147.1	165.4	178.3	181.2	195.0	209.8	219.8	232.6	238.0	256.9	269.9	285.2	293.5	313.8	327.8
2.	Durables only	15.9	20.6	22.7	24.6	30.4	29.5	29.1	32.9	32.4	38.6	38.5	40.4	37.3	43.4	43.9
3.	Consumer borrowing: Total [1]	9.5	13.4	18.1	18.6	22.6	24.2	30.2	31.8	31.6	40.1	40.9	43.0	41.2	49.8	60.1
4.	Secured by durables [1]	5.0	8.2	10.0	12.8	16.7	16.4	21.0	22.2	20.9	27.4	27.3	28.8	26.0	31.6	32.6
5.	Inflow of funds to consumer credit lenders [2]	2.6	17.0	14.2	19.7	31.4	34.5	36.2	34.6	40.7	47.0	45.8	47.5	54.6	52.8	62.5

1. Gross of payment on installment debt.
2. Consumer debt amortization, and other fund sources of commercial banks, finance companies and credit unions.

Sources: Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Department of Health, Education, and Welfare, and U.S. Department of Commerce, Office of Business Economics.

The availability of construction loans has likewise varied countercyclically with credit conditions, so that shifts in final demand could be met promptly and to some extent even provided for in advance by construction activity.

The effects are clearly apparent from the annual data shown in the chart, and emerge strikingly in the quarterly statistics. In the first four quarters after the recent troughs of general business, residential building activity firmed while most other cycle-sensitive components of national product were still weak, and moved up as follows:

Increase over four-quarter period
(Annual rate in billions of dollars)

From trough of—	
1949	5
1954	4
1958	6½

In the current recession, no corresponding rise of homebuilding has yet developed. The slide in applications for Government backing has been checked in recent months, however, and the latest move in the zigzag course of new starts has been in an upward direction.

Downturns of housing expenditures in mid-1955 and mid-1959 led the cyclical turns of general business by a year or more. Building activity peaked out in 1948 and 1953 at about the same time as gross national product, starts having of course turned down before GNP in each case.

In evaluating the postwar experience of variable mortgage credit conditions as a weapon against the business cycle, account should be taken of some longer-term factors which have been gradually changing over this period. One of these factors is the size of the market which still remains untapped and can be opened up by a further easing of credit. This potential market has almost certainly been reduced since World War II as loan-value ratios have edged upward and postwar backlogs of needs and waves of family growth and suburbanization have leveled off. A maximum practicable easing of terms from their present state probably would not bring so many additional buyers into the market this year as could have been brought in by such an easing in the conditions of 5 or 10 years ago. The credit "elasticity" of demand that remains is currently being tested, as last year's stringency of mortgage funds tapers off.

Noncorporate Investment

Plant and equipment investment and inventory requirements for the farm and nonfarm enterprises of individuals and for nonprofit organizations moved up sharply in the early postwar years, approximating $15 billion in 1950.

The experience of the 1950's featured a moderate uptrend centering in business plant and equipment outlays, and a series of shorter term swings. As may be seen in the third line of table 1, these swings contributed several billion dollars to the GNP advances of 1958–59, 1954–55, and 1949–50. There has been a decline since 1959.

The fluctuations of noncorporate buying shown in the table are largely traceable to cyclically associated movements in spending of nonfarm enterprises. These movements were offset in some years by countercyclical changes in farm investment, and were limited to some extent because of the concentration of noncorporate businesses in trade and service lines which are not very sensitive to cyclical changes.

The role of credit availability in the swings in investment of these enterprises is hard to evaluate from the limited statistical information at hand, but is no doubt important.

As in the case of residential construction, outlays have apparently tended to firm as credit has eased in recessions, and have then moved up to early peaks, turning down thereafter considerably ahead of declines in general business activity. This pattern has emerged more consistently in nonfarm than in farm spending, the latter having been much affected by income changes in certain years and steadied in other periods by the continued rise in the values of land and structures.

As credit conditions tightened over the postwar period, noncorporate businesses utilized a rising volume of short-term credit to finance longer term investments as well as to cover a moderate inventory buildup.

Consumer Durables
Purchasing and Finance

WE TURN now from investment to consumer purchasing of durable goods, where credit selling is also a major factor.

While the supply of funds for personal investment has fluctuated considerably in recent years, consumption loan funds have not been in particularly short supply at any time since World War II. A heavy gross flow of cash from individuals repaying consumer debt has been available for relending; by turning these funds over 1.1 or 1.2 times annually, a large volume of final sales of GNP has been financed since World War II with a relatively limited pool of capital. (See Table 3.) Funds to enlarge the pool, moreover, have generally been forthcoming when required, through finance companies set up for the purpose or through other business channels.

Sales of consumer durables have been principally financed by commercial banks and sales finance companies, with the latter borrowing heavily from the banks during periods of sharp advance in loan volume. Neither these lendings nor the relative small share of such loans financed through credit unions seems to have been much affected by general money market conditions.

There was a sharp rise in use of consumer credit during the 1950's, indicated in table 2 by the growth of borrowing relative to purchases. Automobile loans including loans on new and used cars and finance charges are a big element. These have been comparable in magnitude to total consumer expenditures for new autos. The use of credit for household durables is also prominent.

Apart from any question of fund supplies available, the practical limits to easing of downpayment and term-to-maturity standards have been extended in the case of housing credit by the uptrend of realty values. In the case of consumer—especially auto—borrowing, by contrast, the trend of values has been such as to narrow these limits. During the middle 1950's the growing stock of used cars gradually overtook the demand. The consequent fall in used-car values, relative to new-car prices, was directly reflected in the ratio of repossession value to sales price of new autos, and hence in practical limits to the easing of terms.

Consumer lending, on the other hand, has been encouraged much more than has mortgage lending by the prevalence of high yields and by competitive pressures to sell goods.

Under the recent-year circumstances the tendency has been to make consumer credit available on terms which have been little affected by year-to-year changes in general financial conditions. As indicated in table 2, reductions in the fund sources of the major institutional lenders such as occurred in 1952–53 and 1958–59 have not been reflected in durable-goods credit extensions, nor have the sharp increases in fund supplies which have come in 1954 and 1958—and again in the current period—been accompanied by corresponding

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Table 3.—Financial Asset Accumulation and Debt Operations, 1946–60

(Billions of dollars)

Line		1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
1	**Financial asset accumulation**	13.4	9.4	6.9	6.9	11.1	14.8	20.0	18.8	17.4	22.5	23.2	23.1	25.7	31.1	22.7
2	**Life insurance and pension reserves**	3.7	3.5	4.2	4.3	4.8	5.4	6.4	6.9	7.3	7.6	8.2	8.0	8.7	8.9	9.1
3	Insurance reserves	na	na	na	na	3.3	3.0	3.9	3.9	4.2	4.2	4.3	3.5	3.9	3.4	3.3
4	Pension reserves	na	na	na	na	1.5	2.4	2.6	2.9	3.1	3.4	3.8	4.5	4.5	5.4	5.8
5	**Other financial assets**	9.6	5.6	2.8	2.6	6.2	8.7	13.7	12.0	10.0	14.9	15.1	15.2	17.0	22.2	13.6
6	Fixed-value claims	13.0	5.4	1.0	1.6	5.4	7.6	10.3	8.8	10.4	8.9	9.0	8.3	10.2	9.0	11.7
7	Currency and demand deposits	5.2	−.2	−2.7	−2.4	3.1	3.0	2.7	.4	.7	.3	.9	−1.5	2.2	−.6	−1.1
8	Time and savings deposits at banks	6.4	2.3	.9	1.0	.6	2.1	4.5	4.0	4.7	3.5	3.7	6.5	8.0	4.1	5.0
9	Shares at savings and loan associations and credit unions	1.2	1.2	1.2	1.5	1.5	2.1	3.0	3.5	4.4	4.8	5.4	5.2	6.5	7.3	8.0
10	U.S. savings bonds, series A through K	1.2	2.1	1.0	1.5	.2	−.5	.1	.2	.6	.3	−.1	−1.0	−.5	−1.8	−.2
11	Marketable securities	−3.2	.2	1.6	1.0	.8	1.1	3.4	3.2	−.4	6.0	5.2	6.9	1.2	13.3	1.8
12	U.S. Government	−3.1	−.5	−.3	−.1	−.5	−1.0	.4	.1	−1.0	1.6	1.5	1.6	−2.4	9.0	−.7
13	State and local government	−.2	.3	1.0	.4	.5	.4	1.0	1.3	.7	1.7	1.5	2.2	1.2	2.6	1.1
14	Corporate and other securities	.0	.6	1.1	.7	.7	1.7	2.1	1.3	.0	2.7	1.9	3.1	2.4	1.1	1.4
15	**Retirement of amortized debt**	8.5	12.4	15.9	18.4	21.8	27.2	30.1	33.1	35.5	39.4	43.9	47.9	49.1	52.0	56.3
16	Nonfarm residential mortgages	1.8	2.2	2.0	3.0	3.4	4.2	4.7	5.1	5.4	5.8	6.7	7.5	8.2	8.6	9.3
17	Consumer installment credit	6.8	10.2	13.8	15.5	18.4	23.0	25.4	28.0	30.5	33.6	37.2	40.3	40.9	43.4	46.0
18	**New borrowing** [1]	16.4	33.6	27.1	27.5	41.5	37.3	45.4	44.7	52.2	63.9	62.5	63.3	70.3	81.9	79.6
19	Residential and business (Table 1)	9.2	11.0	10.5	8.7	18.7	13.4	14.6	12.5	19.8	23.2	22.4	20.3	29.7	31.9	28.4
20	Consumer and security credit	7.2	12.6	16.0	18.8	22.8	23.9	30.9	32.2	32.4	40.7	40.1	42.0	41.6	50.0	51.0
21	**Net increase in debt**	7.8	11.3	11.2	8.3	18.7	10.2	15.3	11.7	16.2	24.4	18.6	15.4	21.2	30.0	23.2
22	Residential and business	7.4	8.0	7.9	5.0	15.2	9.2	9.8	7.4	14.4	17.5	15.7	12.7	20.6	23.3	19.1
23	Consumer and security credit	.4	2.3	3.3	3.2	4.8	.9	5.4	4.3	1.8	7.0	2.9	2.7	.7	6.7	4.1
24	**Financial asset accumulation less increase in debt**	5.6	−1.9	−4.3	−2.0	−6.6	3.9	4.7	7.1	1.1	−1.9	4.6	7.7	4.5	1.1	−.5

[1] Gross of retirements in line 15. na—Not available.

Sources: Securities and Exchange Commission, Federal Home Loan Bank Board, Board of Governors of the Federal Reserve System, and U.S. Department of Commerce, Office of Business Economics.

advances in credit buying. Use of credit has apparently fluctuated in response to the complex factors determining goods demand, rather than the availability of funds being itself an important cause of market swings.

Financial Saving of Individuals

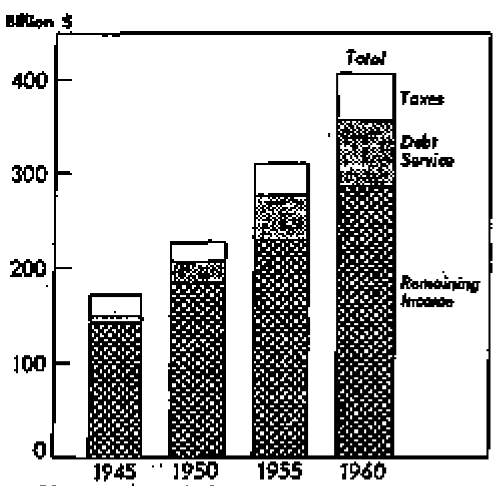
THE preceding sections have dealt with personal outlays for investment goods and more briefly, with spending for consumer durables. These have been considered in the financial context of the borrowing done and the downpayments met out of the buyers' liquid assets at the time of purchase.

In the longer run, the financial requirements involved are generally covered by the buyers' financial saving out of income—the accumulation of bank deposits and other claims prior to the purchases, and repayment of debt afterward, which are reflected in table 3.

At any given time, however, the plans and motivating circumstances which underlie the current flow of financial saving may be largely independent of those which underlie the current expenditure out of savings to purchase goods. The two are combined in the measure of total personal saving which is discussed in the concluding section of this article, but financial saving will be considered separately first.

Besides debt repayment the media of financial saving include savings and demand deposits, insurance and pension rights, marketable securities, mortgages and other claims of various sorts. Though debt retirement and asset acquisition affect opposite sides of the balance sheet, they are both forms of saving inasmuch as they absorb current income and increase net worth.

PERSONAL INCOME, PERSONAL TAXES AND DEBT SERVICE PAYMENTS*



* Interest and amortization on consumer and mortgage debt

U. S. Department of Commerce, Office of Business Economics 61-4-10

This flow of loanable funds has risen comparatively steadily over time. Some components have expanded much more rapidly than others, as table 3 shows, with significant consequences for savers, institutional lenders, and the users of credit. The shifts and some of the consequences are reviewed briefly below.

Debt amortization payments have increased steadily in importance, and these have been little affected by the mild postwar swings in business. The annual increments of insurance and pension funds were also stepped up more or less smoothly, though at a lesser pace. The rate of rise in deposits and security holdings showed an uptrend similar to that in insurance and pension saving, but with marked swings during the cycles. These swings dominated the course of total financial saving in the cycles, and made it a force for credit easing in recession and tightening in the later stages of business expansion.

Contractual saving

Debt amortization and insurance and pension-fund saving are broadly similar in that the amounts so saved normally depend less on short-run conditions and attitudes than on previous commitments which the saver has considerable incentive to honor. This characteristic was reflected in the relative steadiness of their growth during the mild cyclical fluctuations of the past decade and a half.

By comparison with most other uses of disposable income, contractual saving and the related item of debt interest may be considered as having a special and prior claim. Like tax liabilities, though less certainly, these precommitments tend to reduce the amount of current income the individual regards as available for spending. The postwar growth of contractual saving and debt interest has been large enough to have an appreciable effect on current spending decisions.

The "burden" of debt service is due, of course, to the stepped-up use of credit, and its dampening effect on the GNP can be more than offset by the new borrowing power associated with it. As has been seen, under the prosperous economic conditions of the postwar period as a whole the availability of credit has made for broader markets. Basic demand conditions have been favorable, and consumers have generally been willing to undertake fixed obligations.

Debt repayments

Payments on consumer installment debt are currently taking over 13 percent of disposable income as against 6–8 percent in the late forties.

Commercial banks and finance companies are the principal holders of consumer credit, and the steady flow of such repayments not only affects their loan policies but also contributes to the countercyclical changes in the lending power of the banks, the excess or shortfall of new loans as against repayments generally being reflected in the bank debt of the finance companies.

Mortgage payments, including interest charges, rose from 2½ percent of disposable personal income in the late 1940's to around 5 percent last year.

The flow of such payments is heaviest into savings and loan associations, which account for two-fifths of the total. With their alternative fund outlets quite limited, funds paid in to the associations tend to reenter the real estate market.

The inflows to life insurance carriers and commercial banks are also large—each of these groups receiving around 15 percent of all such payments. These institutions deal with a variety of borrowers, and their receipts on mortgages tend to ease credit availability in general. The carriers' investment portfolios consist in large part of longer term obligations, while the banks are more active in short-term lending.

Life insurance and pension funds

The aggregate amount saved each year through insurance and pension plans has shown an uptrend over the postwar period about in line with that of disposable income. During the past decade, the step-up has been due entirely to the rapid rise of pension plans, which now account for around three-fifths of the combined total of such saving annually.

Pension plans have increased sharply in number since the end of World War II, and in this period personal saving through such plans rose from less than $1 billion annually to well over $5½ billion. In recent years pension fund trustees (other than insurance carriers) have channeled around half the net inflow to these funds into purchase of common stocks, with the balance being invested primarily in corporate bonds.

The stable volume of saving through life insurance and the carriers' generally moderate participation in the pension reserve buildup have been reflected in relative stability in their net new lending for the past 7 years. With offerings and yields of Government and business obligations rising, this stability meant a cutback in the insurance companies' participation in the home mortgage market.

Other financial assets

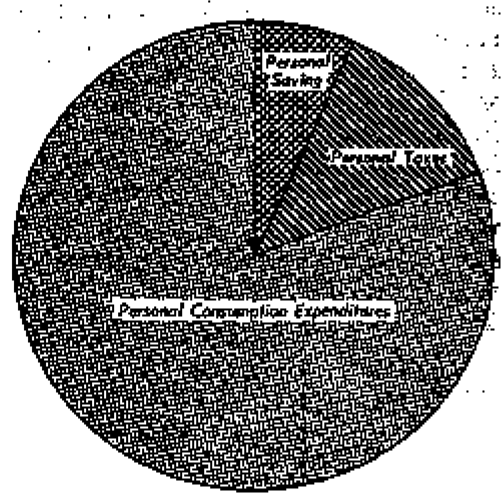
Persons' acquisitions of other financial assets—comprising currency, deposits, and securities—have moved up quite markedly from the very low levels of the immediate postwar era, and last year aggregated some $14½ billion. The element common to all this wide spectrum of financial instruments is their immediate availability and disposability.

On balance, the composition of such saving has tended to shift over the past decade and a half away from fixed-value claims and toward marketable securities, which offer higher yields or prospects of capital appreciation. Within both categories there has also been a move toward higher-yielding types.

Among fixed-value claims, saving and loan shares moved up in savers' esteem. While the yield differentials favoring these over other savings deposits have narrowed considerably during the past decade, the associations still offer relatively favorable terms, and have continued to benefit from the tendency of prospective homeowners to put their savings in institutions which specialize in home financing.

DISTRIBUTION OF PERSONAL INCOME AMONG TAXES, CONSUMPTION, AND SAVING, 1960

Of the Total Personal Income of $404 Billion Nearly 12½ Percent Went for Taxes, 6⅓ Percent for Saving, and 81 Percent Went for Consumer Expenditures



U. S. Department of Commerce, Office of Business Economics 61-4-8

Personal Saving, Credit, and Disposable Income

THE preceding sections have dealt separately with individuals' financial saving and with their use of loan and equity capital in the markets for goods. When the substance of these separate discussions is brought together, it is seen to cast considerable light on the financial-market role of personal saving as defined in the national income accounts.

Financial effects of personal saving

Personal saving is shown in the chart on this page as the income left after personal taxes have been paid and consumption expenditures made. In table 4, such saving is shown in terms of the forms it has taken. The relevant general distinction here is that between "real" media of saving—i.e., investment goods—and financial media.

The purchase of investment goods typically operates to reduce the supply of potentially loanable funds.

Consumer goods buying also involves drafts on the financial markets, at least equal to the sums actually borrowed, and greater if downpayments are obtained by selling securities or liquidating other accumulated past savings. The conventional national income accounting assumes that cash purchases and downpayments represent consumption rather than capital transactions; it should be noted, however, that even purchases that are clearly of a consumption character generally involve drafts on the supply of credit when they are financed from past savings or borrowings. But as pointed out in the section on the buying of consumer durable goods, and evident from the lower part of table 3, the borrowing and repayments tend to be largely from a revolving pool, changing in size over time.

Dealings in land and used tangible assets are like transactions in financial instruments in that—apart from the capital gains realized—one form of capital is exchanged for another with no net effect on the stock of loanable funds. In most postwar years, however, very large capital gains (not included in national income accounting) have been realized from trading in such assets. The buyer's capital funds go in this case to a seller who may well treat them in part as income, and such a treatment absorbs financial capital just as does the purchase of new investment goods.

As has already been pointed out, the presence of capital gains whether realized or unrealized has progressively strengthened the position of the owners as credit risks. It has not increased the lending power of the financial system, however. This disparity of effect has been one of the factors in the gradual working off of the great liquidity which characterized the economy in the earlier postwar period.

Financial saving has an effect opposite to that of "real" saving, of course. It adds to the supply of loanable funds in the ways detailed above.

In the 1950's, as may be seen from the last line of table 3, individuals' financial saving generally supplied more capital funds than were required to finance their investment goods and consumption borrowing put together. The net effect of personal saving, in other words, was to facilitate borrowing by business and Government as well as individuals. This effect was especially substantial in 1953 and 1957—periods when demand for funds was pressing strongly against available supplies and monetary policy was generally restrictive. In periods of prosperity with greater financial ease such as 1948, 1950, and 1955, persons' financial saving fell short of the loan fund requirements of personal investment and consumption.

Table 4.—Personal Saving and Investment and Related Financial Flows, 1946–59

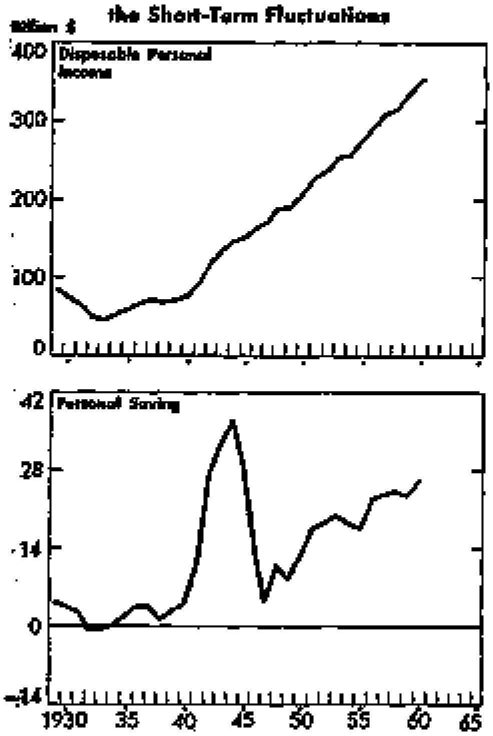
(Billions of dollars)

Line		1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
1	Investment in housing and noncorporate businesses	11.5	15.9	22.4	19.4	27.7	26.3	25.2	28.6	27.6	33.0	30.0	31.1	32.1	38.2
2	Less: Associated borrowing	9.2	11.0	10.6	9.7	16.7	13.4	14.5	12.6	10.8	23.2	22.4	20.3	28.7	31.9
3	Capital consumption allowances	5.0	6.3	7.2	8.2	9.0	10.3	10.9	11.6	12.2	12.8	13.6	14.7	15.1	16.4
4	Plus: Financial assets and debt retirement	22.0	21.8	22.8	25.5	32.9	41.3	50.1	51.9	53.2	61.9	67.1	70.9	74.6	83.1
5	Less: Consumption borrowing	7.2	12.6	15.6	18.8	22.8	23.0	30.9	32.7	32.4	40.7	40.1	43.0	41.6	50.0
6	Statistical discrepancy	−1.4	2.2	.0	−.3	−2.5	2.2	.3	1.3	−2.3	.6	−1.0	.5	−2.9	−.1
7	Equals: Personal saving	13.5	4.7	11.0	8.5	12.6	17.7	18.9	19.8	18.9	17.5	23.0	23.6	24.4	23.4
8 9	Total sources of funds (lines 2+3+5+7). Total uses of funds and discrepancy (lines 1+4−6).	34.9	34.5	45.3	44.3	62.1	65.3	75.1	76.1	82.8	94.2	99.0	101.6	109.8	121.9

Sources: Board of Governors of the Federal Reserve System, Securities and Exchange Commission and U.S. Department of Commerce, Office of Business Economics.

INCOME AND SAVING

Saving Tends to Follow Income in the Long Run but Other Factors Contribute to the Short-Term Fluctuations



U. S. Department of Commerce, Office of Business Economics 61-4-12

Income and saving

The common observation that the percentage of income saved drops sharply in economic recessions and rises with good times has been applicable to the national economy as a whole—including corporations and Government—but not to the experience of consumers in this period. The swings in personal income during recent cycles have been mild, and those in personal saving correspondingly limited. The lagging adjustment of consumption standards to changes in income has been less evident in the saving record for this period than has the impact of swings in credit purchasing of new cars.

This stability has been possible because the income effects of output reductions and expansions have centered on corporate earnings and the fiscal position of the Government rather than on consumer buying power.

Income of wage and salary workers, the largest element in personal income, has been shielded from the immediate effects of production swings by contractual arrangements as to pay rates, a high and rising proportion of salary payments in the total, unemployment benefits, and other factors.

Since cyclical changes have been most pronounced by far in certain major industries where the corporate form of organization predominates, the greater stability in payroll costs has meant that corporate profits have borne a larger share of the cyclical movements in national income.

Corporate income tax rates averaging around 50 percent, and dividend payouts being stable, about half of the change in corporation earnings was generally carried through to undistributed profits. The remainder was reflected in tax yields and hence entered the Federal surplus or deficit, along with unemployment compensation outlays and other countercyclical items of Government expenditure. With these stabilizers in operation, personal income moved up more steadily in the 1950's than in any recorded prior period.